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C O R R E C T E D C O P Y (FORMATTING)

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SUBJECT: BULGARIAN FM KALFIN'S WASHINGTON MEETING WITH THE
SECRETARY, APRIL 8

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Classified By: Charge Alex Karagiannis for reasons 1.4 (b) and (d).

11. (C) SUMMARY: FM Kalfin arrives just after his sprint to Ashgabat and the NATO and U.S.-EU Summits and just two weeks before Bulgaria's April 24-25 Energy Summit on natural gas. Anxious for a successful summit, Bulgaria is struggling to confirm high-level attendance and thread the needle that can balance EU skeptics of its initiative, Russian strong-arming on South Stream and the U.S. strategic focus on principles -- transparency, diversity, market rules -- rather than simply on projects and pipelines. Kalfin is determined to deliver. Smart, savvy, sensible, and honest, he has President Parvanov's ear and PM Stanishev's confidence, testament to his skills given their increasingly prickly personal and political relationship. As the government stumbles towards summer parliamentary elections, its commitments to us on Afghanistan and regional security in South Eastern Europe and the Black Sea remain firm, but its capacity to deliver is shrinking. Kalfin is above the political fray and is positioned to remain influential. Your meeting will help secure positive decisions from a government that looks for a U.S. boost. END SUMMARY.

ELECTORAL POLITICS AT CENTER STAGE

12. (C) Kalfin will accompany President Parvanov to the NATO Summit and PM Stansihev to the U.S.-EU Summit. He will be instrumental in defining and implementing policy as the two leaders manage their increasingly testy relationship. The government is staggering to the end of its five year term with notable achievements, especially in economic growth, but now overshadowed by world conditions. A cynical public is worried about job losses and poor social services; it is frustrated and angry over rampant corruption, high-profile scandals, and EU funds withheld over mismanagement. The political season is in full swing as the country heads to summer elections; risk averse political survival instincts are taking hold. But Bulgaria's pro-Atlantic orientation is set; it has supported us in Iraq, Afghanistan, Kosovo, NATO membership issues, and MAP for Georgia and Ukraine. Bulgarians look to the U.S. as they set policy courses.

ENERGY SECURITY

13. (C) Over 95 percent dependent on Russian gas, Bulgaria suffered dearly from the two-week Russian-Ukraine gas dispute and cut-off in January. It now looks to build interconnectors with neighbors. More strategically, it is determined to showcase its long-planned April 24-25 energy summit and help bring greater energy security to Europe.

At our urging, Bulgaria has proposed an agenda based on the principles of transparency, diversification, market-based decision making and best business practices. The Russians are now leveraging Putin's possible participation to pressure Bulgaria to highlight its South Stream project. The Bulgarians are resisting any multilateral signings or a bilateral deal on their part, but cannot guarantee what other countries (or companies) might do. They know their credibility is at stake with us, the EU, and Central Asian and Caspian countries that they cultivated for alternative supplies and routes. They are working closely with us on the declaration and are eager to hear who will represent the U.S.

AFGHANISTAN

14. (C) Despite public opposition to overseas deployments and though saddled with a limited capacity military, Bulgaria has come through on Afghanistan when presented with specific, targeted requests. It withdrew 153 soldiers from Iraq (at GOI request), and we have requested an equivalent number be shifted to Afghanistan. Specifically, we have requested modest increases (two more OMLTs, medical teams, civilian experts, and consolidation of forces in the South) all well within Bulgaria's capacity. With an eye on elections, some here want the decision left to the new government. A clear message to Kalfin will help get a positive decision now.

15. (C) We have worked hard to improve Bulgarian military capacity, making it more deployable and more NATO inter-operable. We have proposed an F-16 deal, but the erratic and weak Defense Minister threw a spanner in the works, stalling the process and forcing us to wait until a new government is in place. We still believe it is in our mutual interest to end Bulgarian dependence on Russian MiG's that are ineffective and very costly to maintain (over \$100 million a year). An investment in U.S. aircraft would lock the Bulgarians into a long-term relationship with us and transform their military, ending decades of Russian influence and graft-induced military procurements.

ECONOMY

16. (C) After five years of impressive growth, Bulgaria is now feeling the effects of the global financial crisis. Fortunately, strict fiscal conservatism has left the country with sufficient buffers to avoid the financial turbulence seen in many of its neighbors, at least for now. But Bulgaria's small, open economy is vulnerable to potential outside shocks including restricted lending by its mostly foreign-owned banking sector and the shrinking of its European export markets. The Socialist-led government is loath to look for outside help as elections loom and has ruled out a precautionary agreement with the IMF or ECB assistance. Bravado is no substitute for prudent planning; Bulgaria must prepare for a potential economic rough ride.

CORRUPTION/RULE OF LAW

17. (C) Within the EU, Bulgarians have the least confidence in their public institutions; confidence in police, prosecutors, and judges is shockingly low at less than 20 percent. Serial scandals in multiple ministries, a culture of impunity for venal and corrupt public officials, organized crime rackets, and EU withholding of funds for mismanagement have rocked the political establishment. Reforms to date have not made an appreciable dent in systemic problems. But there is some incremental progress, thanks to U.S. and EU pressure. Our word counts especially heavily. A firm U.S. message on the integrity of the electoral process and on successfully prosecuting suspected criminals will resonate quite well here with a public that values our leadership.

18. (C) COMMENT: The U.S. enjoys high public approval. Bulgaria prides itself on being a predictable and reliable partner.

It wants to burnish its international reputation, in concert with support for U.S. policies. Prime Minister Stanishev and President Parvanov are committed to start on the right foot with President Obama. Your meeting and public remarks will set the tone and parameters for a renewed relationship. Kalvin will come back galvanized to get things done. END COMMENT.

Karagiannis